

CONSOLIDATED
FINANCIAL
STATEMENTS OF



Years ended July 31
2019 | 2018

July 31, 2019 and 2018

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this annual report are the responsibility of management, and have been prepared in accordance with international financial reporting standards. Where necessary, management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The corporation maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been audited by the corporation's independent auditor, Guimond Lavallée Inc., who has issued their report herein.

The board of directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The board of directors exercises its responsibilities through the audit committee. The audit committee meets from time to time with management and the corporation's independent auditor to review the consolidated financial statements and matters relating to the audit. The corporation's independent auditor has full and free access to the audit committee. The consolidated financial statements have been reviewed by the audit committee, who recommended their approval by the board of directors.

(signed)
Marc Lemieux

President and Chief Executive Officer

(signed)
Annie Mercier

Chief Financial Officer

INDEPENDANT'S AUDITOR REPORT

To the shareholders of
KDA GROUP INC.,

Opinion

We have audited the accompanying consolidated financial statements of KDA GROUP INC. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at July 31, 2019 and July 31, 2018, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at July 31, 2019 and 2018, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other Matters

The financial statements of the Group for the year ended July 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on November 30, 2018.

Other Information

Management is responsible for the other information. The other information comprises:

- the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions, but does not include the financial statements and our auditor's report thereon;
- the information contained in a document that may be entitled "2019 Annual Report", other than the financial statements and the auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information are materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We have obtained the information contained in the Management's Discussion and Analysis as of the date of this auditor's report. If, in the light of the work we have done on this other information, we conclude that there is a material misstatement in this other information, we are required to report this fact in the auditor's report. We have nothing to report in this regard.

We expect to obtain the information contained in a document entitled "2019 Annual Report", other than the financial statements and the auditor's report thereon, after the date of this auditor's report. If, in the light of our work on this other information, we conclude that there is a material misstatement in this other information, we will be required to report this fact to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Bédard.

Guimond Lavallée inc.¹

Chartered Professional Accountant Corporation

Brossard (Quebec)
November 28, 2019

¹ CPA auditor, CA permits n° A128615

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Canadian dollars)

	Note	At July 31, 2019	At July 31, 2018
ASSETS			
Current assets			
Cash		1,233,334	411,782
Restricted cash		-	870,000
Trade and other receivables	7	3,243,109	3,052,987
Prepaid expenses		93,886	217,579
Income taxes receivable	13	-	236,340
Loans receivable from shareholders, without interest		989,664	1,225,732
Loans receivable from a minority subsidiary	5	-	310,195
		5,559,993	6,324,615
Non current assets			
Investment	5	700,000	-
Property and equipment	8	605,543	377,159
Intangible assets	9	2,626,010	2,796,715
Goodwill	9	6,310,861	6,905,638
Deferred tax assets	13	283,487	552,478
Derivative financial instrument	12	-	189,489
		10,525,901	10,821,479
TOTAL ASSETS FOR CONTINUING ACTIVITIES		16,085,894	17,146,094
Assets regarding deconsolidation of subsidiary	5	-	7,813,768
TOTAL ASSETS		16,085,894	24,959,862
LIABILITIES			
Current liabilities			
Bank indebtedness	10	1,251,250	2,085,950
Trade and other payables	11	3,674,901	3,201,782
Provision	5	1,844,335	-
Deferred revenues		243,350	-
Due to Shareholder, without interest		1,000,000	620,000
Income taxes payable	13	142,493	-
Current maturity of long-term debt	12	7,545,789	12,317,466
		15,702,118	18,225,198
Non current liabilities			
Long term debt	12	472,458	1,865,205
Preferred shares	14	5,972,762	2,938,403
Deferred tax liabilities	13	519,004	316,036
		6,964,224	5,119,644
TOTAL LIABILITIES FOR CONTINUING ACTIVITIES		22,666,342	23,344,842
Liabilities regarding deconsolidation of subsidiary	5	-	4,976,038
TOTAL LIABILITIES		22,666,342	28,320,880
DEFICIENCY			
	14		
Share capital		18,439,819	12,621,560
Share to be issued		575,000	870,000
Contributed surplus		712,830	382,721
Other comprehensive loss		(220,500)	-
Deficiency attributable to shareholders		(25,667,901)	(17,158,255)
Equity attributable to non-controlling interest		(419,696)	(77,044)
TOTAL DEFICIENCY		(6,580,448)	(3,361,018)
TOTAL LIABILITIES AND DEFICIENCY		16,085,894	24,959,862
Going concern			
Unrecognized commitments	1		
Contingent liabilities	23		
Subsequent events	24		
	27		

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board:

(Signed)
 Marc Lemieux, Director

(signed)
 Annie Mercier, Chief Financial Officer

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Years ended July 31, 2019 and 2018

(In Canadian dollars, except per share amounts)

	Note	2019	2018
Revenues	17	23,093,827	20,412,237
Cost of revenues	18	17,538,009	14,978,172
		5,555,818	5,434,065
Selling and administrative expenses	19	5,160,596	3,699,279
Impairment charges	8,9	602,678	-
Loss on the sale of a subsidiary	4,5	2,225,979	209,980
		7,989,252	3,909,259
Income (loss) before depreciation, amortization, finance costs and income taxes:		(2,433,434)	1,524,806
Depreciation of property and equipment	8	84,872	27,182
Amortization of intangible assets	9	431,006	790,094
Operating loss before the following:		(2,949,312)	707,530
Net finance costs	20	4,488,620	1,220,348
Loss before income tax		(7,437,932)	(512,818)
Income tax expense (recovery)		321,176	2,407
Deferred income tax expense (recovery)		562,974	5,779
		884,150	8,186
Net Loss from continuing operations		(8,322,082)	(521,004)
Net loss from discontinued operations	5	(536,507)	(4,774,412)
Net loss		(8,858,589)	(5,295,416)
Other comprehensive loss			
Change in the fair value of available-for-sale financial assets	5	(300,000)	-
Deferred income tax recovery	13	79,500	-
Total loss and comprehensive loss		(9,079,089)	(5,295,416)
Net loss attributable to:			
Equity holders of KDA Group Inc.		(8,515,937)	(5,218,372)
Non-controlling interest		(342,652)	(77,044)
		(8,858,589)	(5,295,416)
Loss per share from continued operations			
Basic and diluted loss per share	15	(0,12)	(0,12)
Loss per share from discontinued operations			
Basic and diluted loss per share	15	(0,01)	(0,11)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

Years ended July 31, 2019 and 2018

(In Canadian dollars, except number of shares)

	Total deficiency attributable to shareholders											
	Number of shares	Class "A" Common shares	Shares to be issued	Contributed surplus	Convertible Debenture in shares	Warrants reserve	Premium on convertible shares	Deficiency	Total	Other Comprehensive Loss	Non-Controlling Interest	Total Deficiency
Balance at July 31, 2018	42,930,614	12,621,560	870,000	382,721	43	41,235	(1,621,406)	(15,578,127)	(17,158,255)	—	(77,044)	(3,361,018)
Issuance of units	35,430,333	4,568,919	(870,000)	—	—	745,631	—	—	745,631	—	—	4,444,550
Shares to be issued	—	—	575,000	—	—	—	—	—	—	—	—	575,000
Debt Settlement	8,400,000	1,260,000	—	—	(43)	—	(749,957)	—	(750,000)	—	—	510,000
Share issue cost	—	(10,660)	—	—	—	10,660	—	—	10,660	—	—	—
Stock-based compensation	—	—	—	330,109	—	—	—	—	—	—	—	330,109
Net loss and comprehensive loss for the year	—	—	—	—	—	—	—	(8,515,937)	(8,515,937)	—	(342,652)	(8,858,589)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(220,500)	—	(220,500)
Balance at July 31, 2019	86,760,947	18,439,819	575,000	712,830	—	797,526	(2,371,363)	(24,094,064)	(25,667,901)	(220,500)	(419,696)	(6,580,448)
Balance at July 31, 2017	42,387,754	12,450,993	—	349,179	43	21,802	(1,621,406)	(10,365,782)	(11,965,343)	—	6,027	840,856
Issuance of units	542,860	170,567	—	—	—	19,433	—	—	19,433	—	—	190,000
Shares to be issued	—	—	870,000	—	—	—	—	—	—	—	—	870,000
Share-based compensation	—	—	—	33,542	—	—	—	—	—	—	—	33,542
Net loss and comprehensive loss for the year	—	—	—	—	—	—	—	(5,212,345)	(5,212,345)	—	(83,071)	(5,295,416)
Balance as at July 31, 2018	42,930,614	12,621,560	870,000	382,721	43	41,235	(1,621,406)	(15,578,127)	(17,158,255)	—	(77,044)	(3,361,018)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31, 2019 and 2018

(In Canadian dollars)

	Note	July 31, 2019	July 31, 2018
Cash flows from operating activities:			
Net loss and comprehensive loss for the year		(8,858,589)	(5,295,416)
Adjustments for:			
Income tax expense	13	321,176	(521,833)
Deferred income tax expense	13	562,974	-
Depreciation of property and equipment	8	94,532	53,846
Amortization of intangible assets	9	481,871	1,372,136
Impairment charges	9	602,677	2,295,652
Loss on the sale of a subsidiary	5	381,644	192,578
Write-off of receivable	19	75,000	225,000
Share-based compensation	19	330,109	33,542
Loss (gain) on derivative financial instruments	20	189,489	(328,522)
Accreted interest		2,519,365	1,289,858
Fair value adjustment of the conversion option		550,168	(36,035)
Gain on settlement of short term liability		(461,661)	-
Amortization of transaction costs		134,517	-
Provision on sale of a subsidiary	5	1,844,335	-
		(1,232,393)	(719,194)
Changes in non-cash elements of working capital	26	(1,118,719)	1,484,059
		(2,351,112)	764,865
Cash flows from investing activities:			
Additions to property and equipment	8	(393,587)	(327,410)
Additions to intangible assets	9	(280,648)	(211,161)
Disposal of property and equipment	8	111,288	-
Increase in loan receivable		(722,796)	(319,388)
Proceeds from the sale of a subsidiary	5	3,803,195	1,127,378
		2,517,452	269,419
Cash flows from financing activities:			
Proceeds from long-term debt	12	203,654	2,669,703
Repayment of long-term debt	12	(6,413,529)	(2,877,748)
Proceeds from issuance of units	14	2,959,550	190,000
Proceeds from issuance of shares	14	3,225,000	-
Increase in advance from shareholder		380,000	-
Proceeds from unclosed private placement		575,000	-
Decrease in the bank indebtedness	10	(834,700)	(334,050)
		94,975	(352,095)
Net increase in cash		261,315	682,189
Cash, beginning on the year		972,019	289,830
Cash, end of the year		1,233,334	972,019
Supplemental information			
Interest paid		1,419,087	1,085,535

The accompanying notes are an integral part of the consolidated financial statements.

Refer to note 26 for non-cash operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2019 and 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

1 REPORTING ENTITY AND GOING CONCERN

KDA Group Inc. (“KDA” or the “Corporation”) is incorporated under the Business Corporations Act (Québec). The Corporation is a publicly traded company listed on the TSX Venture Exchange (“TSX.V”) under the symbol “KDA”. The Corporation’s head office is 300-1351 Notre-Dame East, Thetford Mines, Québec, G6G 0G5.

The consolidated financial statements of the Corporation for the years ended July 31, 2019 and 2018 comprise the Corporation and its subsidiaries. The Corporation provides a range of solutions and services to pharmacies and pharmaceutical companies in Canada.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they become due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

For the year ended July 31, 2019, the Corporation reported a loss and comprehensive loss of \$8,266,743 has negative working capital of \$9,754,526 and has an accumulated deficit of \$24,776,055 at that date. As discussed in note 22, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at July 31, 2019, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation is presently in discussions with its banker to remediate the situation. The Corporation remains current in terms of debt repayment but was in breach of certain of its financial covenants contained in the latest extended forbearance agreement. The Bank could recall its credit facility and its loan should the Corporation fail with its remediation plan.

The Corporation’s recent operating results, combined with the financial covenants breach, lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

MANAGEMENT’S PLANS WITH RESPECT TO THE UNCERTAINTIES DESCRIBED ARE AS FOLLOWS:

1. Investigating a range of alternatives to streamline its Pharmacy Services and Pharmaceutical Solutions business units and focus its efforts toward selected niche markets with the objective of ensuring the Corporation can generate sustainable, long-term profitability;
2. Approaching potential lenders and investors to secure additional debt and/or equity financing.
3. Expanding its type of products with recent acquisition of subsidiaries in the Pharmaceutical cannabis sector.
4. Divestiture of business units.

Management is also currently implementing several initiatives to improve its cost structure, drive increased revenues and improve operating profitability. The ability of KDA to ultimately achieve its business plan in the longer term is dependent on some factors outside KDA management’s control including, but not limited to, the external legislative changes in the generic drugs distribution industry. In addition, as discussed in note 11 the Corporation has agreed with its main lender on the terms of an extended forbearance agreement under which the lender has agreed not to request immediate reimbursement of the loan until November 30, 2019. These undertakings, while significant, may not be sufficient in and of themselves to enable the

Corporation to fund all aspects of its operations and, accordingly, management may need to pursue other financing alternatives to fund the Corporation’s operations, so it can continue as a going concern. There is no assurance that these initiatives will be successful and that further forbearance extension will be granted.

These consolidated financial statements does not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.



BASIS OF PREPARATION

a) STATEMENT OF COMPLIANCE

These consolidated financial statements of the Corporation has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 28, 2019.

b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated statements of financial position:

- Certain financial instruments and contingent considerations are measured at fair value.

The consolidated financial statements have been prepared on a going concern basis, meaning the Corporation would be able to realize its assets and discharge its liabilities in the normal course of action.

c) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Canadian dollars (“\$”), which is the Corporation’s functional currency.

d) USE OF ESTIMATES AND JUDGMENTS

The preparation of the accompanying consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions are based on management’s best estimates and judgments.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the financial statements of future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

INFORMATION ABOUT CRITICAL JUDGMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES THAT HAVE A SIGNIFICANT RISK OF RESULTING IN A MATERIAL ADJUSTMENT ARE INCLUDED IN THE FOLLOWING NOTES:

Note 8 & 9

Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition.

Notes 9

Goodwill is reviewed annually for impairment. Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment review requires estimates in a variety of areas including the determination of fair value, selling costs, timing and size of cash flows, long-term growth rates, discount rates, and other valuation variables; the application of these variables in valuation models requires judgment.

Note 13

Assessing the recoverability of deferred tax assets based on an assessment of KDA and its subsidiaries' ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions.

Note 14

The Series A Preferred Shares issued by the Corporation include conversion and redemption options, which are considered as Level 3 financial instruments. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the consolidated statement of loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative as at July 31, 2019, are provided in Note 13.

Note 24

Provisions recognized in the consolidated financial statements involve judgments on the occurrence of future events, which could result in a material outlay for the Corporation. In determining whether an outlay will be material, the Corporation considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

(Tabular amounts in Canadian dollars, unless otherwise noted)



SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all the subsidiaries.

BASIS OF CONSOLIDATION

i) Business Combinations

The Corporation measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired, and liabilities assumed, all measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Corporation.

THE CORPORATION'S SUBSIDIARIES, AS AT JULY 31 ARE:

Name	Nature of services	2019	2018
Campus Elitis Pharma Inc.	Pharmacy Services	80%	80%
Elitis Pharma Inc.	Pharmacy Services	100%	100%
Alliance Pharma Operations Inc.	Pharmacy Services	100%	100%
Pro-J Pharma Inc.	Pharmacy Services	100%	100%
9287396 Canada Inc. combination	Pharmacy Services	100%	100%
Logistik Pharma Inc.	Pharmacy Services	100%	100%
Alliance Pharma Group L.L.P.	Pharmacy Services	99%	99%
Agence L.I.V. Inc.	Pharmaceutical Solutions	100%	100%
Pharmapar Inc. ⁽¹⁾	Pharmacy Services	20%	100%
CanNorth Médic Inc.	Pharmaceutical cannabis products	51%	51%
CanNorth Médic International Inc.	Pharmaceutical cannabis products	80%	n.a

⁽¹⁾ The interest in the subsidiary is accounted for in accordance with the Corporation's accounting policy for financial instruments, i.e. at fair value through other comprehensive loss. The investment in Pharmapar Inc. didn't give the power to participate in the financial and operating policies decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

iii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

iv) Non-controlling interests

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net loss and comprehensive loss is recognized directly in equity.

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

Financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at amortized cost' and 'fair value through other comprehensive income' (FVOCI). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; if on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

Financial assets at FVOCI are stated at fair value, with any gains or losses arising on re-measurement recognized through other comprehensive income.

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'debt instruments'. Debt instruments are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Asset	Classification	Subsequent Measurement
Cash and restricted cash	Debt instruments	Amortized cost
Trade and other receivables	Debt instruments	Amortized cost
Loans receivable from shareholders	Debt instruments	Amortized cost
Loan receivable from minority subsidiary	Debt instruments	Amortized cost
Investment ⁽¹⁾	FVOCI	Fair value

⁽¹⁾ At the initial recognition of this financial asset, the Corporation made the irrevocable election to designate this financial asset as fair value through other comprehensive loss (FVOCI).

(Tabular amounts in Canadian dollars, unless otherwise noted)

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

DERECOGNITION OF FINANCIAL ASSETS

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE CORPORATION

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or if it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or if it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

THE CORPORATION HAS CLASSIFIED ALL OF ITS FINANCIAL LIABILITIES AS FOLLOWS:

Financial liability	Classification	Subsequent measurement
Bank indebtedness	Other financial liability	Amortized cost
Trade and other payables (excluding sales tax payable)	Other financial liability	Amortized cost
Provision	Other financial liability	Amortized cost
Due to shareholder, without interest	Other financial liability	Amortized cost
Long-term debt	Other financial liability	Amortized cost
Preferred shares – host component	Other financial liability	Amortized cost
Preferred shares – conversion option	FVTPL	Fair value

DERECOGNITION OF FINANCIAL LIABILITIES

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

■ SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

All transactions with owners are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

■ COMPOUND FINANCIAL INSTRUMENT AND EMBEDDED DERIVATIVES

The preferred shares issued by the Corporation are considered to be a compound financial instrument that can be converted into common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The preferred shares also include a redemption option to convert the preferred shares into debt after a certain period, at the option of the holder, which amount to be settled will vary based on the timing of the exercise as described in note 14.

The compound financial instrument is recognized as a liability, with the initial carrying value of the Preferred shares (host) being the residual amount of the proceeds, after separating the derivative component, which is recognized at fair value, and also the warrants issued with the instruments. Any directly attributable transaction costs are allocated to the host and to the warrants issued.

The embedded derivative (conversion options) that constitutes the Preferred shares (derivative) is recorded at fair value separately from the host contract, as its economic characteristics and risks are not clearly and closely related to those of the host contract.

(Tabular amounts in Canadian dollars, unless otherwise noted)

Subsequent to initial recognition, the host component of the compound financial instrument is measured at amortized cost using the effective interest method. The derivative component of the compound financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value is recorded in the consolidated statements of loss and comprehensive loss.

Accretion of interest related to the host component is also recognized in the consolidated statement of loss and comprehensive loss as financing costs.

■ DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation may enter into non-speculative derivative financial instruments to manage risk. Derivative financial instruments are recorded at fair value with mark-to-market adjustments recorded in the consolidated statement of loss and comprehensive loss.

■ INVENTORIES

Inventories are composed of finished goods available for sale. Inventories are measured at the lower of cost and net realizable value, the cost being determined using the first in, first out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Allowances for slow-moving or obsolete inventory are recorded when considered appropriate.

■ PROPERTY AND EQUIPMENT

Property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in net income or loss.

Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

THE DEPRECIATION METHOD AND USEFUL LIVES ARE AS FOLLOWS:

Categories	Method	Useful lives
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	5 years
Leasehold improvements	Straight-line	5 years
Vehicle	Straight-line	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are reviewed for impairment in accordance with IAS 36 Impairment of Assets when there are indicators that the carrying value may not be recoverable.

INTANGIBLE ASSETS

i) Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses in accordance with IAS 36 impairment of assets.

ii) Other finite life intangible assets

Other intangible assets consist of customer relationships, training courses, software, web sites, commercialization rights and non-compete agreements. Other intangible assets that are acquired by the Corporation and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses in accordance with IAS 36 impairment of assets.

INTANGIBLE ASSETS WITH FINITE LIVES ARE AMORTIZED ON A STRAIGHT-LINE BASIS OVER THE FOLLOWING ESTIMATED USEFUL LIVES:

Categories	Useful lives
Customer relationships	10 years
Training courses	5 years
Software	5 years
Web sites	3 years
Non-compete agreement	Contractual period

Useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying amounts are reviewed at each reporting date to determine whether there is an indication of impairment.

IMPAIRMENT

i) Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets other than deferred tax assets and goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to each acquired business within the Corporation's operating segments, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell ("FVLCS"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and impairment reversals are recognized in income or loss.

■ SHARE-BASED PAYMENT TRANSACTIONS

The grant date fair value of equity share-based payment awards granted to employees or consultants is recognized as an administrative expense, with a corresponding increase in contributed surplus, over the period that the employees or the consultants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service condition at the vesting date.

■ DEFERRED REVENUE

Deferred revenue consists of payments received by the Corporation in consideration for professional services to be delivered over a certain period at contracted prices. As services are provided, the Corporation will record a portion of the deferred revenue as sales, based on a proportionate share of services provided compared with the total estimated contractual commitment.

■ DEFERRED FINANCING COSTS

Financing costs related to debt are deferred and amortized over the term of the corresponding loans. When one of these loans is repaid, the corresponding financing costs are charged to net earnings.

■ REVENUE RECOGNITION

Revenues are derived from sales of goods, services or contracts. Revenues from goods are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and professional allowance. Revenues from services and contracts are recognized when it is realized or realizable and earned. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, usually when the merchandise is shipped; the recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of revenue can be

measured reliably. Professional allowance and cash discounts granted to customers are accrued at the time of sale and recorded as a reduction of sales.

■ DISCONTINUED OPERATIONS

A discontinued operation is a component of the Corporation that has either been disposed of or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Assets, liabilities, comprehensive loss, and cash flows relating to a discontinued operation of the Corporation are segregated and reported separately from the continuing operations of the Corporation. The comparative statement of comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

■ SEGMENTED INFORMATION

An operating segment is a component in the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The Corporation's Chief Executive Officer regularly reviews all operating segments' operating results to decide which resources should be allocated to the segment and to assess its performance, for which specific financial information is available.

The Corporation has three reportable operating segments: pharmacy services, pharmaceutical solutions and Pharmaceutical cannabis products.

The accounting policies that are used for the operating segment are the same as the one described in this note. The Corporation analyzes the performance of its pharmacy services and pharmaceutical solutions segments based on its operating income before depreciation, amortization, finance costs and income taxes. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance. The Corporation records intersegment operations, if any, at the amount agreed between the parties.

(Tabular amounts in Canadian dollars, unless otherwise noted)

■ FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested, available-for-sale financial assets and dividend income. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Finance costs comprise interest expense on bank indebtedness and long-term debt, unwinding of the discount on provisions and impairment losses recognized on financial assets (other than trade receivables) and accretion of interest on the host component of the preferred shares.

Fair value gains or losses on derivative financial instruments, on the derivative component of the preferred shares and on contingent considerations, and foreign currency gains and losses are reported as either finance income or cost.

■ INCOME TAXES

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are

offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

■ EARNINGS PER SHARE

The Corporation presents basic and diluted earnings per share (“EPS”) data for its Class “A” common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Corporation by the weighted average number of Class “A” common shares outstanding during the year, adjusted for own shares held, if any.

Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of Class “A” common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential Class “A” common shares, which comprise convertible debentures in shares, warrants and stock options.

■ EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

DEFINED CONTRIBUTION PLANS

The Corporation contributes to state-run defined contribution pension plans for employees in which the Corporation pays fixed contributions for eligible employees. The costs of benefits for defined

contribution plans are expensed as they are incurred. The Corporation has no legal or constructive obligation to pay any further amounts.

THE PENSION PLAN EXPENSE DURING THE YEAR AMOUNTS TO THE FOLLOWING:

	2019	2018
Total presented under cost of revenue	6,924	5,936

CHANGE IN STANDARDS, INTERPRETATIONS AND ACCOUNTING POLICIES

a) Adoption of new accounting standards

The accounting policies used in these consolidated financial statements are consistent with those applied by the Corporation in its July 31, 2018 consolidated financial statements except for the amendments to certain accounting standards which are relevant to the Corporation and were adopted by the Corporation as of August 1, 2018 as described below :

FINANCIAL INSTRUMENTS

Effective as of August 1, 2018, the Corporation adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation adopted the new classification and valuation, impairment and general hedging requirements on August 1, 2018 by applying the classification and valuation, including impairment, requirements retrospectively, with the cumulative effect of initially applying the standard recognized in opening retained earnings as at July 31, 2018 and without restatement of comparative information.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The adoption of IFRS 9 changes the Corporation's accounting policies with respect to the classification of financial instruments. Following adoption, the Corporation's classification is as follows:

- Cash and restricted cash were classified as "Financial assets at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as "Debt instruments" subsequently measured at amortized cost.
- Trade and other receivables, loans receivable from shareholders and loan receivable from minority subsidiary from were classified as "Loans and receivables" before the adoption of IFRS 9 and are now classified as "Debt instruments" subsequently measured at amortized cost.
- Bank indebtedness, trade and other payables (excluding sales tax payable), provision, due to shareholder without interest, long-term debt and preferred shares (host component) were classified as "Other financial liabilities" before the adoption of IFRS 9 and are now classified as "Other financial liabilities" subsequently measured at amortized cost.
- Derivative financial instruments, not designated as hedges, and preferred shares (conversion option) were classified as "Financial assets and liabilities at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as "Financial assets and liabilities at fair value through profit and loss" subsequently measured at fair value through profit and loss.

The changes in classification and measurement criteria resulting from the adoption of IFRS 9 had no impact on the measurement of financial instruments.

(Tabular amounts in Canadian dollars, unless otherwise noted)

IMPAIRMENT OF FINANCIAL ASSETS

The adoption of IFRS 9 changes the method used to calculate the impairment of accounts receivable. At each reporting date, the Corporation estimates expected credit losses based on its credit loss history. Those expected losses are adjusted to reflect factors that are specific to the accounts receivable to certain customers, general economic conditions as well as an assessment of both current and forecasted economic conditions at the reporting date, including time value of money when appropriate. The net change in expected credit losses on accounts receivable is recognized in net earnings. The adoption of IFRS 9 had no impact on the impairment of accounts receivable and loans to certain customers.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective the year ended July 31, 2019, the Corporation adopted IFRS 15, Revenue from Contracts with Customers. IFRS 15 replaces IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof. The application of IFRS 15 had no impact on the amounts recognized in the Corporation's consolidated financial statements, and no amounts have been reclassified or restated.

ANNUAL IMPROVEMENTS TO IFRS STANDARDS (2014-2016) CYCLE:

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements and effective date.

AMENDMENTS WERE MADE TO THE FOLLOWING STANDARD:

- Removal of out-dated exemptions for first-time adopters under IFRS 1, First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after January 1, 2018; and

- Clarification that the election to measure an associate or joint venture at fair value under IAS 28, Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis.

The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018. The Corporation adopted these amendments in its consolidated financial statements for the annual period beginning August 1, 2018. The adoption of the amendments did not have an impact on the consolidated financial statements.

b) Standards issued but not yet effective

At July 31, 2019, a number of new standards, amendments to standards and interpretations have been issued but are not yet effective. Accordingly, they have not been applied in preparing these consolidated financial statements. The Corporation is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective that are expected to be relevant to the Corporation's consolidated financial statements are provided below.

Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements and are not listed.

(Tabular amounts in Canadian dollars, unless otherwise noted)

IFRS 16 LEASES

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

TRANSITION TO IFRS 16

The Corporation plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Corporation will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Corporation will therefore not

apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Corporation will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Corporation has assessed that IFRS 16 will not have a significant impact on its consolidated financial statements.

IFRIC 23, UNCERTAINTY OVER INCOME TAX TREATMENTS:

On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments.

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

THE INTERPRETATION REQUIRES AN ENTITY TO:

- Contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- Measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Corporation intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on September 29, 2019. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

(Tabular amounts in Canadian dollars, unless otherwise noted)

**ANNUAL IMPROVEMENTS TO IFRS STANDARDS
(2015-2017) CYCLE:**

On December 12, 2017 the IASB issued narrow-scope amendments to three standards

as part of its annual improvements process. The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements – to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12, Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits -in profit or loss, OCI, or equity; and
- IAS 23, Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The Corporation intends to adopt these amendments in its consolidated financial statements for the annual period beginning on August 1, 2019. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

**AMENDMENTS TO REFERENCES TO
THE CONCEPTUAL FRAMEWORK IN IFRS
STANDARDS:**

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards (the Amendments) to update references in IFRS Standards to previous versions of the Conceptual Framework.

Both documents are effective from January 1, 2020 with earlier application permitted.

The Corporation does not intend to adopt the Amendments in its consolidated financial statements before the annual period beginning on October 4, 2020. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.

(Tabular amounts in Canadian dollars, unless otherwise noted)

4 SALE OF A SUBSIDIARY

On November 15, 2017, the Corporation sold Biomed (2002) Inc., a wholly owned subsidiary, for a total consideration of \$1,950,000. The sale considers a cash consideration of \$1,850,000 reduced by immediate payment of accrued pharmacists' compensation valued at \$722,622. The balance of sale of \$100,000 have been used for working capital adjustments.

5 DISCONTINUED OPERATION

On February 15, 2019, KDA completed the sale of 80% of the issued and outstanding shares of Pharmapar Inc. to Strides Pharma Canada Inc. ("Strides"), for \$4,000,000. The consideration has been received in two payments: the first one, on December 5, 2018, for \$1,000,000 and the second one of \$2,803,195 on the closing date. The amount received at the closing date represent the due balance of the sale price minus the amounts of taxes payable of \$46,805 by Pharmapar Inc. ("Pharmapar") and an adjustment on the net working capital of \$150 000 as of December 31, 2018. The transaction is effective as of January 1, 2019.

Under the share sale agreement, KDA could pay to Stride an amount regarding the 2019 EBITDA (calendar year from January 1st to December 31st) non-achieve. Under the agreement, if the target EBITDA 2019 of \$700,000 is not achieve, KDA must pay the adjustment amount. As of July 31, 2019, the Corporation could estimate the 2019 EBITDA adjustment to \$1,844,335.

Resulting to the completion of the sale, the Corporation has kept 20% of the issued and outstanding shares of Pharmapar and recognized his investment at a fair value of \$1,000,000. As at July 31, 2019, KDA remeasured his investment at fair value for a total of \$700,000 and recognized a loss of \$300,000 in the other comprehensive loss.

At any time following the second anniversary of the effective date of the agreement, January 1, 2019 KDA or Stride shall have the right to require the purchase of all and not less than all of the shares held by KDA equal to the product obtained by multiplying a) 6 times of the EBITDA of Pharmapar for the last four quarters ending immediately prior to the delivery notice from KDA or Stride, by b) a fraction of the numerator of which is the total number of common shares to be purchased and the denominator of which is the total number of issued and outstanding common shares at the relevant date. The Corporation, as of July 31, 2019 had a loan receivable from Pharmapar for an amount of \$310,195, without interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

THE CARRYING VALUES OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 2018, THE DATE OF THE TRANSACTION ARE SUMMARIZED BELOW:

Net current assets	708,882
Property, plant and equipment	83,762
Intangible assets	3,417,316
Goodwill	1,282,666
Deferred tax assets	(1,016,473)
	4,476,153
Consideration	4,000,000
Professional fees	94,509
Loss on the sale of a subsidiary	381,644

Statements of loss and comprehensive loss for Discontinued Operations Years ended July 31, 2019 and 2018

(in Canadian dollars)	2019 ⁽¹⁾	2018
Revenues	1,966,229	5,671,561
Cost of revenues	1,343,309	4,189,744
	622,920	1,481,817
Selling and administrative expenses	1,059,028	2,984,116
Impairment charges	-	2,295,652
	1,059,028	5,279,768
Loss before depreciation, amortization, finance costs and income taxes:	(436,108)	(3,797,951)
Depreciation of property and equipment	9,660	26,664
Amortization of intangible assets	50,865	582,042
Operating loss before the following:	(496,633)	(4,406,657)
Net finance costs	39,874	790,488
Loss before income tax	(536,507)	(5,197,145)
Income tax recovery	-	(104,457)
Deffered income tax recovery	-	(318,276)
Net loss from discontinued operations	(536,507)	(4,774,412)

(1) The net loss from discontinued operations refer the period from August 1, 2018 to December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

Statements of financial position for Discontinued Operations

(In Canadian dollars)

	At July 31, 2018
ASSETS	
Current assets	
Cash	560,237
Trade and other receivables	716,094
Prepaid expenses	104,920
Inventories	1,616,009
	2,997,260
Non current assets	
Property and equipment	86,065
Intangible assets	3,447,837
Goodwill	1,282,606
	4,816,508
TOTAL ASSETS	7,813,768
LIABILITIES	
Current liabilities	
Trade and other payables	1,179,015
Professional Allocation	1,527,703
Loan payable	1,194,059
Income Taxes payable	58,788
Deffered tax liabilities	1,016,473
TOTAL LIABILITIES	4,976,038
TOTAL Discontinued Operations	2,837,730

	At July 31, 2019	At July 31, 2018
Net cash flows used in discontinued operations		
Net cash (used) provided by operating activities	(521,490)	(412,209)
Net cash (used) provided by investing activities	(7,357)	(2,464,230)
Net cash (used) provided by financing activities	(1,194,059)	1,194,059,
Net cash flows used in discontinued operations	(1,722,906)	(1,682,380)

(Tabular amounts in Canadian dollars, unless otherwise noted)

6 INVESTMENT IN CANNORTH MEDIC

On July 3, 2018, KDA announced a participation in a new subsidiary of the Corporation, CanNorth Medic Inc. ("CanNorth") of which it holds 51%. The creation of this subsidiary does not result from the acquisition of a corporation, so no sale agreement has been concluded. In addition, the 49% minority shareholders of CanNorth are at arm's length to the Corporation.

The Corporation's majority interest in CanNorth will allow the Corporation to offer cannabis products for medical purposes to patients. CanNorth will operate in accordance with all applicable laws, rules and regulations.

CanNorth's operations are at a preliminary stage and currently generate no income or sales and CanNorth currently has no significant assets or liabilities. All of its operations are located in Canada and CanNorth does not currently have any operations in the United States and does not plan to operate in the United States.

KDA has successfully completed the preliminary and high-level review of its licence application for the cultivation of cannabis for medical purposes, as confirmed by health Canada on May 10, 2019. This confirmation

under the Cannabis Regulations by health Canada represents an important milestone on which the Corporation has been working for several months.

On October 28, 2018, KDA created a new compagnie, CanNorth Medic International Inc. (CanNorth int'l) of which it holds 80%. The creation of this subsidiary does not result from the acquisition of a corporation, so no sale agreement has been concluded. In addition, the 20% minority shareholders of CanNorth are at arm's length to the Corporation.

The Corporation's majority interest in CanNorth Int'l will allow the Corporation to operate a nursery for the cultivation of cannabis and to distribute cannabis products for medical purposes to patients, in Canada and other countries in accordance with all applicable laws, rules and regulations.

7 TRADE AND OTHER RECEIVABLE

	2019	2018
Trade receivables	3,243,109	2,955,413
Other receivables	—	97,574
	3,243,109	3,052,987

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

8 PROPERTY AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Equipment	Vehicles	Total
Cost						
Balance at July 31, 2018	175,245	265,182	46,624	28,722	111,290	627,063
Additions	113,957	26,466	6,125	133,702	141,858	422,108
Disposal	-	-	-	-	(111,288)	(111,288)
Balance at July 31, 2019	289,202	291,648	52,749	162,424	141,860	937,883
Depreciation						
Balance at July 31, 2018	6,979	204,047	28,480	-	10,398	249,904
Disposal	-	-	-	-	(10,398)	(10,398)
Depreciation for the year	25,399	23,588	6,486	-	29,400	84,873
Impairment	-	1,871	6,090	-	-	7,961
Balance at July 31, 2019	32,378	229,506	41,056	-	29,400	332,340
Net carrying value						
At July 31, 2018	168,266	61,135	18,144	28,722	100,892	377,159
At July 31, 2019	256,824	62,142	11,693	162,424	112,460	605,543

The additions of leasehold improvements and equipment are not amortized because they were not ready to be in use. These additions are related to the CanNorth Medic Inc. subsidiary.

9 INTANGIBLE ASSETS

	Training courses	Software	Web sites	Customer relationships	Non-compete agreements	Total
Cost						
Balance at July 31, 2018	91,236	1,594,391	85,084	2,478,998	1,074,999	5,324,708
Additions	-	250,000	10,300	-	-	260,300
Balance at July 31, 2019	91,236	1,844,391	95,384	2,478,998	1,074,999	5,585,008
Amortization						
Balance at July 31, 2018	91,236	1,289,468	60,389	585,500	501,400	2,527,993
Amortization for the year	-	131,278	22,428	90,900	186,400	431,005
Balance at July 31, 2019	91,236	1,420,746	82,816	676,400	687,800	2,958,998
Net carrying value						
At July 31, 2018	-	304,923	24,695	1,893,498	573,599	2,796,715
At July 31, 2019	-	423,645	12,568	1,802,598	387,199	2,626,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

■ **GOODWILL**

Balance at July 31, 2018	8,188,243
Deconsolidation of a subsidiary (note 5)	(1,282,666)
Impairment charges	(594,716)
Balance at July 31, 2019	6,310,861

■ **GOODWILL IMPAIRMENT TEST**

For the purpose of impairment testing, goodwill is allocated to the Corporation's CGUs within operating segments that represent the lowest level within the Corporation at which the goodwill is monitored for internal management purposes. The Corporation performs its goodwill impairment tests as at July 31 of every year.

The recoverable amount of the CGU was determined based on the value-in-use approach using a discounted cash-flow model for the placement personnel agencies and for Agence L.I.V. The significant key assumptions are based on the forecasted cash flows based on a period of 5 years. CGUs within the Pharmacist Services considered revenue growth rates as follows: 7% in 2020 and 5% for years 2020 to 2024. The expected growth rates of the expenses were variable for variable expense and the growth rates of fixed expense will grow at the inflation rate of 2%. The growth rate of the projections reflects management expectation that the sales will grow starting in year 1. The discounted cash flow models were established using a discount rate between 15.25% and 15.50%, which was based on the weighted average cost of capital before tax which assumes a cost of equity between 15.50% and 18.00% and a cost of debt of 3.70%. A terminal value based on the Gordon growth model was used at the end of year 5.

CGUs within the Pharmacist Solution included the Pro-J Pharma Inc. subsidiary. For the purpose of the impairment testing, the Corporation did not consider this one because, the management decided to take an impairment of 100% of the goodwill balance for a total amount of \$594,777. Thus, the Corporation considered revenue growth rates of 2% in 2019-2024 related to this CGU without the Pro-J Pharma Inc. subsidiary. The expected growth rates of the expenses were variable for variable expense and the growth rates of fixed expense will grow at the inflation rate of 2%. The discounted cash-flow models were established using a discount rate between 15.25% and 17.75%, which was based on the weighted average cost of capital before tax which assumes a cost of equity between 16.50% and 18.50% and a cost of debt of 3.70%. A terminal value based on the Gordon growth model was used at the end of year 5.

Based on the estimated VIU and sensitivity analysis performed, management concluded that no impairment required in the Pharmacist Services operating segment and an impairment of \$594,777 in the Pharmaceutical Solutions operating segment as at July 31, 2019.

10 BANK INDEBTEDNESS

As part of the Corporation's credit facility (as more fully described in note 12), the Corporation has authorized operating credits totaling \$1,800,00 (\$2,500,000 as of July 31, 2018), bearing interest at prime rate plus 2.50% per annum based

on certain leverage ratios. The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangible properties.

11 TRADE AND OTHER PAYABLES

	At July 31, 2019	At July 31, 2018
Trade payables and accrued expenses	2,487,353	2,572,237
Provision (note 24)	65,761	—
Salaries and vacations payable	364,367	297,776
Sales tax payable	147,085	15,845
Interest payable to shareholders	368,668	240,924
Dividend payable (notes 25 & 27)	75,000	75,000
Lease inducement	166,667	—
	3,674,901	3,201,782

THE CORPORATION'S EXPOSURE TO LIQUIDITY RISK RELATED TO TRADE AND OTHER PAYABLES IS DISCLOSED IN NOTE 22.

12 LONG-TERM DEBT

This note provides information about the contractual terms of the Corporation's interest-bearing long-term debts, which are measured at amortized cost. The Corporation's exposure to

interest rate and liquidity risk is disclosed in note 22. The Corporation is in breach of its financial covenants with respect to its secured credit financing as at July 31, 2019, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

	2019	2018
⁽¹⁾ Balance of purchase price bearing interest at 12% repayable by bi-annual installments, matured in May 2018, converted in common shares subsequently (note 27)	825,259	813,993
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$1,560 and maturing in February 2021	29,640	48,360
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installments of \$830, and maturing in October 2021	22,410	32,370
Loan from a Canadian chartered bank ⁽²⁾⁽⁴⁾ (the “Loan from a Canadian chartered bank”), bearing interest at prime rate plus a spread varying between 2.50% - 4.35% per annum based on certain leverage ratios, repayable by monthly installments of \$85,000 maturing in March 2023, net of transaction costs of \$24,000 (\$113,065 as of July 31, 2018)	3,749,247	10,077,404
Balance of purchase price, non-interest bearing and net of accreted interest of \$57,400 (\$192,573 as of July 31, 2018), repayable by annual installments of \$320,000, maturing in June 2021, converted in common shares subsequently (note 27)	1,357,600	1,322,427
Loan bearing interest at 5.73% repayable by monthly installments of \$401 including interest, and maturing in May 2023	—	20,270
Loan bearing interest at 5.94%, repayable by monthly installments of \$514 including interest, and maturing in October 2023	—	27,787
Loan bearing interest at 5.99%, repayable by monthly installments of \$800 including interest, and maturing in December 2024	—	51,057
Long-term debt bearing interest at 6.50%, repayable by monthly installments of \$3,852 and maturing in October 2020	57,779	104,003
Loan bearing interest at 6.99%, repayable by monthly installments of \$589 including interest, and maturing in July 2024	29,736	—
Loan bearing interest at 7.44%, repayable by monthly installments of \$777 including interest, and maturing in December 2025	46,832	—
Loan bearing interest at 6.99% repayable by monthly installments of \$514 including interest, and maturing in October 2025	31,162	—
Loan bearing interest at 7.74% repayable by monthly installments of \$472 including interest, and maturing in December 2025	28,582	—
Promissory notes ⁽³⁾ with shareholders, bearing interest at 18% calculated and compounded annually, without payment terms	1,690,000	1,685,000
Unsecured loan with a shareholder, with 6% of interest and no payment terms	150,000	—
	8,018,247	14,182,671
Less:		
Current portion due to breach of covenants	3,749,247	10,077,404
Current portion due to absence of payment terms debt	3,702,859	1,824,578
Current maturity of long-term debt	93,683	415,484
Long term portion	472,458	1,865,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Tabular amounts in Canadian dollars, unless otherwise noted)

- (1) Any repayment under these purchase price balances must first be approved by the lender of the Loan from a Canadian chartered bank. For the amount of \$825,259, the repayment has ceased in July, 2018 as the lender of the Loan from a Canadian chartered bank has not provided its authorization to proceed with any additional payment on these purchase price balance.
- (2) The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangible properties. The loan is subject to certain covenants regarding the maintenance of financial ratios. The interest rate swap has been canceled.
- (3) On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually. The notes are convertible into Class A Shares of the Corporation anytime at a conversion price equal to the 20-day average trading period prior conversion. A total amount of \$925,000, representing the capital amount of \$690,000 plus Interest at 18% have been converted after the year end (note 27).
- (4) The cash of \$2,803,195 from the sale of Pharmapar was used to reduce the loan (note 5).

As at July 31, 2019, the Corporation was in breach of both of its financial covenant under the Loan from a Canadian chartered bank. Accordingly, the loan from a Canadian chartered bank and the promissory notes with shareholders have been presented as short-term liabilities.

■ INTEREST RATE SWAP ("LOAN")

The Loan from a Canadian chartered bank requires the Corporation to enter into interest rate swaps to convert the variable rate to a fixed rate as described above for an amount of at least 50% of the outstanding balance. During the last quarter of the year, the interest rate swap has been canceled and at July 31, 2019, there was no value compares as July 31, 2018:

	National amount	Expiry date	Floating rate	Fixed rate	2019	2018
Interest rate swap	7,068,750	August 25, 2019	CDOR	1,11%	—	189,489

(Tabular amounts in Canadian dollars, unless otherwise noted)

13 CURRENT AND DEFERRED INCOME TAX

	2019	2018
Income tax recognized in loss		
Current tax recovery	321,176	(102,050)
Deferred tax recovery	562,974	(312,497)
	884,150	(414,547)

The income tax expense reported differs from the amount computed by applying Canadian Federal and Provincial income tax rate to income before taxes of 26.6% (2018 – 26.7%). The reason for the difference and the related tax effects are as follows:

Net loss before income taxes	(7,437,932)	(5,709,963)
Statutory income tax rate	26,6%	26,7%
Expected income tax recovery	(1,978,490)	(1,524,560)
Adjustments :		
Loss on disposal of investments	589,925	-
Non-capital losses not tax effected	1,109,456	-
Non-deductible impairment charges	159,710	612,939
Non-deductible expenses	975,555	515,153
Others	27,994	(18,079)
Income tax recovery	884,150	(414,547)

	2019	2018
Income tax recognized in other comprehensive loss		
Deferred tax recovery	(79,500)	—
	(79,500)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Tabular amounts in Canadian dollars, unless otherwise noted)

THE TAX EFFECTS OF TEMPORARY DIFFERENCES AND NET OPERATING LOSSES THAT GIVE RISE TO DEFERRED INCOME TAX ASSETS AND LIABILITIES ARE AS FOLLOWS:

	2019	2018
Deferred tax assets		
Net operating losses carried forward	-	522,327
Tax basis of capital assets in excess of carrying value	-	170,119
Financial expenses	203,987	100,649
Change in fair value of investment	79,500	-
	283,487	793,095
Deferred tax liabilities		
Carrying value of intangibles assets in excess of tax basis	496,774	1,573,123
Tax basis of capital assets in excess of carrying value	22,231	-
	519,005	1,573,123
Deferred tax recognized on the consolidated statement of financial position:		
Deferred tax assets	283,487	552,478
Deferred tax liabilities	519,004	1,332,506
	(235,517)	(780,028)

As at July 31, 2019, the Corporation had non-capital losses of \$2, 901,340 (2018 - \$783,533), and \$11,169,168 of capital losses (2018 - nil) for which no deferred tax benefit has been recorded. The unrecognized non-capital losses will expire gradually between 2029 and 2039.

14 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

■ SHARE CAPITAL

The Corporation's share capital consists only 86,760,947 of fully paid Class "A" common shares, voting and participating.

The common shares entitle the holders thereof to one vote per share. The holders of the common shares are entitled to receive dividends as declared from time to time. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the holders of the common shares are entitled to receive the remaining property of the Corporation upon its dissolution, liquidation or winding-up.

On November 7, 2018, KDA completed a private placement with accredited investors totaling 13,930,333 units at a price of \$0.15 per Unit for total gross proceeds of \$2,089,550. Each Unit is comprised of one Class A Share of KDA Group and one warrant. Each Warrant entitles the holder to purchase one Class A Share at an exercise price of \$0.20 per share for a period of 24 months ending November 7, 2020. The securities issued in connection with the Private Placement were subject to a four-month hold period expiring on March 8, 2019. No issuance cost were incurred for this private placement.

On December 28, 2018, the Corporation has reached agreements to settle indebtedness to creditors totaling \$510,000 in exchange for the issuance of 3,400,000 Class A Shares of KDA Group at a price of \$0.15 per Common share. These settlements created a total gain of \$461,552. All securities issued under the Debt Settlement were subject to a hold period of four months and one day from the date of issuance in accordance with applicable securities regulations.

On April 10, 2019, KDA completed a conversion of a convertible debenture for a total amount of \$750,000 for 5 000 000 shares. This conversion created a premium of \$749,957.

On July 18, 2019, KDA completed a private placement with accredited investors totaling 21,500,000 Class A shares ("Common shares") at a price of \$0.15 per Common share for total gross proceeds of \$3,225,000. The Corporation paid a cash commission of \$18,000 in relation to this Private Placement and issued 120,000 non-transferable share purchase warrants (the "Broker warrants"). Each Broker warrant entitles the holder to purchase one Common share at an exercise price of \$0.15 per Common share for a period of 24 months ending March 21, 2021.

On June 30, 2016, the Corporation entered into a subscription agreement that provided for the issuance of Series A Preferred Shares upon completion of the business acquisitions. The creation and issuance of the new preferred shares (the "Preferred Shares") were approved by the Shareholders of the Corporation at a special meeting of shareholders. The Series A Preferred Shares are convertible into Class A Shares of the Corporation anytime up to June 29, 2021, at a conversion price of \$0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Corporation. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class A Shares on an "as converted" basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In the event of a change of control of the Corporation, and at any time after June 29, 2020, the holder may demand that the Corporation redeem its Series A Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Series A Preferred Shares plus a preferred return equal to 24%, compounded annually from June 30, 2016, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of liquidation, holders of Series A Preferred Shares will be entitled to receive, in priority to holders of other shares of the Corporation, an amount per Series A Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends see note 24, Contingent liabilities.

In accordance with IAS 32, Financial Instruments: Presentation (“IAS 32”), the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Relative to the Series A Preferred Shares referred to above and the application of IAS 32, the Corporation has determined that the conversion option together with the redemption option feature (collectively the “Conversion Options”) constitute an embedded derivative financial instrument. Upon a conversion into common shares of the Corporation, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative will be transferred to Equity. Upon a conversion into debt, the carrying amount of the host debt instrument and the fair value of the related embedded derivative will be transferred as a normal liability carried at amortized cost.

The Preferred Shares are a hybrid instrument, which are in their entirety regarded as a financial liability. The initial carrying amount of \$996,354 for the debt host represents the residual amount of the proceeds after separating out the \$2,732,441 fair value of the

derivative, which represent the estimated fair value of the conversion options, and the \$21,802 of the warrants valuation. All transaction costs were allocated to the host.

As at July 31, 2019, the Corporation reviewed the estimated fair value of the Preferred shares embedded derivatives and adjusted the initial fair value to \$805,689 using the same valuation technique.

The fair value of the Conversion Options was estimated using a Black-Scholes valuation model using the following assumptions at inception: estimated life: 5 years, actual stock price: \$0.60, volatility: 15%, dividend yield: 0%, risk-free rate: 0.68% and on July 31, 2019: estimated life: 1 year, actual stock price: \$0.25, volatility: 96.17%, dividend yield: 0%, risk-free rate: 1.61%.

Expected volatility was based on the Corporation’s historical volatility and the volatility of an equity market index in the health-care providers and services for the same period. The credit spread used in the valuation was based on an index for CAD triple-C corporate bonds.

For the year ended July 31, 2019, the change in fair value of derivatives resulted in an expense of \$550,168 (July 31, 2018 - Gain of \$36,035) and was recorded in the consolidated statements of loss and comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Tabular amounts in Canadian dollars, unless otherwise noted)

THE FOLLOWING IS A CONTINUITY OF THE WARRANTS OUTSTANDING AT JULY 31, 2019:

	Number of warrants	Weighted average exercisable price
Balance, at July 31, 2017	11,428,571	0.69
Issued	542,857	0.45
Balance, at July 31, 2018	11,971,428	0.69
Issued	13,930,333	0.20
Issued	120,000	0.15
Balance, at July 31, 2019	26,021,761	0.42

THE FOLLOWING TABLE PRESENTS THE DETAILS OF THE ISSUED AND OUTSTANDING WARRANTS AS AT:

Exercise price	2019		2018	
	Expiry date	Number	Expiry date	Number
0.45	January 31, 2020	542,857	January 31, 2020	542,857
0.20	November 7, 2020	13,390,333	—	—
0.15	March 21, 2021	120,000	—	—
0.69	October 20, 2021	11,428,571	October 20, 2021	11,428,571

DIVIDENDS

During the year, the Corporation did not declare any dividend.

15 LOSS PER SHARE

BASIC LOSS PER SHARE

The calculation of basic net loss per share was based on the net loss attributable to Class A common shareholders of \$8,515,937 (July 31, 2018 – net loss of \$5,218,372) and a weighted average number of Class A common shares of 73,567,514 (July 31, 2018 – 42,656,955).

DILUTED LOSS PER SHARE

The effect of potential issuances of shares under stock options, warrants and preferred shares would be non-dilutive for periods ended July 31, 2019, and 2018.

(Tabular amounts in Canadian dollars, unless otherwise noted)

16 SHARE-BASED PAYMENT ARRANGEMENTS

■ STOCK OPTION PLAN

The Corporation offers a stock option plan for the benefit of its directors, employees, consultants and persons conducting investor relations activities (the “Plan”). The total number of shares which may be issued under the Plan may not exceed 8,477,551 options. The exercise price payable for each option is determined by the Board at the date of grant, and may not be less than the market price of the common share at the closing price of the TSX-V the day preceding the grant date for a minimum amount of \$0.10 per option. The options vest over periods ranging between 12 months and 2 years.

On February 27, 2019, the Corporation granted 1,170,000 options to employees, directors and consultants that will be vesting over the next 2 years following the grant date. The fair value was estimated using the Black Scholes option pricing model based on the following weighted average assumptions:

Risk free interest rate	1.79%
Expected volatility	102.54%
Dividend yield	NIL
Expected life	5 years
Grant date fair value	\$0.0956

On June 7, 2019, the Corporation granted 3,200,000 options to employees, directors and consultants that will be vesting over the next 2 years following the grant date. The fair value was estimated using the Black Scholes option pricing model based on the following weighted average assumptions:

Risk free interest rate	1.41%
Expected volatility	101.20%
Dividend yield	NIL
Expected life	5 years
Grant date fair value	\$0.1878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

THE TABLE BELOW SUMMARIZES THE CHANGES IN THE OUTSTANDING STOCK OPTIONS:

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance	3,125,000	0.19	1,975,000	0.15
Issuance	4,370,000	0.25	1,150,000	0.25
Expired	(600,000)	0.25	—	—
Balance, end of the year	6,895,000	0.25	3,125,000	0.19
Options exercisable, end of the year	3,695,000	0.20	2,954,500	0.17

THE FOLLOWING TABLE SUMMARIZES INFORMATION ABOUT STOCK OPTIONS OUTSTANDING AND EXERCISABLE AT JULY 31, 2019:

Exercise price	Number of options	Options outstanding	Options exercisable
		Weighted average remaining contractual life (in years)	Number of options
0.15	1,200,000	0.44	1,200,000
0.15	375,000	0.50	375,000
0.15	150,000	0.81	150,000
0.20	250,000	0.84	250,000
0.25	650,000	3.49	650,000
0.25	1,070,000	4.58	1,070,000
0.25	3,200,000	4.86	—
	6,895,000	3.45	3,695,000

OF THE OPTIONS OUTSTANDING AT JULY 31, 2019, A TOTAL OF 1,900,000 (JULY 31, 2018 –1,950,000) ARE HELD BY KEY MANAGEMENT PERSONNEL AND 3,200,000 ARE HELD IN ESCROW AND ARE TO BE RELEASED AT 100% ON OCTOBER 7, 2019.

17 REVENUES

	2019	2018
Replacement pharmacists	13,210,484	11,664,987
Training	9,692,452	7,806,649
Other revenues	190,891	940,601
	23,093,827	20,412,237

(Tabular amounts in Canadian dollars, unless otherwise noted)

18 COST OF REVENUES

Cost of revenues includes compensation and related employee benefits for a total amount of \$10,661,516 (2018 – \$9,967,031).

19 SELLING AND ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and fringe benefits	1,151,486	900,762
Donations	2,400	2,461
Repairs and maintenance	34,324	14,451
Rental fees	379,169	111,884
Travel	149,530	87,312
Meals and entertainment	118,898	64,312
Advertising	50,997	36,682
Supplies and office expenses	369,164	408,038
Telecommunications	71,776	63,958
Bad debt	72,544	206,462
Professional fees	2,765,434	1,569,695
Share-based compensations	330,109	33,542
Management fees	—	163,706
Regulatory and filing fees	60,555	36,014
Provision for litigation	65,761	—
Gain on debt settlement	(461,661)	—
	5,160,486	3,699,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

20 FINANCE COSTS

	2019	2018
Accreted interest	2,519,365	1,289,858
Fair value adjustment of the Conversion option	550,168	(36,035)
Gain derivative financial instrument	—	(328,522)
Financial costs	1,419,087	295,047
Net finance costs	4,488,620	1,220,348

21 SEGMENTED INFORMATION

In line with the Corporation's strategic plan and recent acquisitions expanding the customer's products offering, the Corporation provides information on three reporting segments: Pharmacy Services and Pharmaceutical Solutions and Pharmaceutical cannabis products. The profitability measures employed by the chief operating decision

maker, who is responsible for allocating resources and for assessing segment performance. The first profitability measure is gross margin less selling and administrative expenses. The second profitability measure is the income (loss) and comprehensive loss which corresponds to loss before depreciation, amortization, finance costs and income taxes.

INFORMATION PERTAINING TO EACH SEGMENT FOR THE YEARS ENDED JULY 31:

	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis products		Corporate and others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues	13,402,925	12,607,138	9,690,903	7,805,099	-	-	-	-	23,093,827	20,412,237
Segment operating income (loss)	4,082,573	2,402,513	1,573,522	1,328,962	(695,070)	(157,844)	(4,565,804)	(1,838,845)	395,221	1,734,786
Impairment charges	602,678	-	-	-	-	-	-	-	602,678	-
Loss on a sale of subsidiary	2,225,979	-	-	-	-	-	-	-	2,225,979	-
Segment income (loss) ⁽¹⁾	1,253,916	2,192,533	1,573,522	1,328,962	(695,070)	(157,844)	(4,565,804)	(1,838,845)	(2,433,436)	1,524,806

⁽¹⁾ Per the consolidated statements of loss and comprehensive loss, this measure corresponds to loss before depreciation, amortization, finance costs and income taxes.

(Tabular amounts in Canadian dollars, unless otherwise noted)

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

■ CLASSIFICATION OF FINANCIAL INSTRUMENTS

The carrying amounts of the Corporation's financial assets and liabilities by categories are as follows:

FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT AMORTIZED COST

	2019	2018
Cash	1,233,334	411,782
Restricted cash	—	870,000
Trade and other receivables	3,243,111	3,052,987
Loans receivable, without interest	989,664	1,225,732
Loan receivable from a minority shareholder	—	310,195
Bank indebtedness	1,251,250	2,085,950
Trade and other payables (excluding sales tax payable)	3,527,816	3,185,937
Provision	1,844,335	—
Long-term debt	8,018,247	14,182,671
Preferred shares - host component	5,167,073	2,682,882

■ FAIR VALUE

Fair value is the estimated amount that parties dealing at arm's length would accept to exchange in settlement of a financial instrument based on the current market for instruments with the same risk, principal and maturity date. These fair value estimates are affected by assumptions made about the amount and timing of estimated future cash flows, discount rates and terms of the contract. As a result, the fair values are not necessarily the net amounts that would be realized if such financial instruments were settled.

The Corporation has determined that the carrying amount of its short-term financial assets and liabilities, including, trade and other receivables, bank overdraft and, trade and other payables, approximates their fair value because of the relatively short periods to maturity of these instruments.

Management believes that no significant change occurred in the risk of these instruments.

■ FAIR VALUE HIERARCHY

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT FAIR VALUE

	2019	2018
Interest rate swap (level 2)	—	189,489
Preferred shares - conversion options (level 3)	(805,689)	(255,521)
Investment in Pharmapar (level 3)	700,000	—

RISKS

In the normal course of its operations and through its financial assets and liabilities, the Corporation is exposed to the following risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives and processes for managing risk, and the Corporation's capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

RISK MANAGEMENT FRAMEWORK

The Corporation's management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls, and monitors risks and adherence to limits. Risk management is reviewed regularly to reflect changes in market conditions and the Corporation's activities.

IMPAIRMENT LOSSES

THE AGING OF TRADE RECEIVABLES AT THE REPORTING DATE WAS:

	2019		2018	
	Total	Impairment	Total	Impairment
Not past due	2,650,260	—	2,225,466	—
Past due 1 - 30 days	410,692	—	460,579	—
Past due 31 - 60 days	35,282	—	261,262	—
Past due more than 60 days	146,875	—	8,106	—
	3,243,109	—	2,955,413	—

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties. The Corporation cash balances and restricted cash balances are maintained at major Canadian banks, which management believes to be creditworthy. The Corporation is also exposed to credit risk through its derivative financial instrument. The risk is mitigated by using creditworthy counterpart.

The Board of Directors has overall responsibility of the Corporation's risk management framework. The Board of Directors monitors the Corporation's risks through its audit committee. The audit committee reports regularly to the Board of Directors on its activities. The Corporation's audit committee oversees how management monitors and manages the Corporation's risks.

a) CREDIT RISK

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Corporation's trade receivables. The Corporation grants credit to its customers in the ordinary course of business. Management believes that the credit risk of trade receivables is limited due to the following reasons:

- No single customer accounts for more than 10% of the Corporation's revenue;
- Approximately 94% (July 31, 2018 – 91%) of the Corporation's trade receivables are not past due or 30 days or less past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

b) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Cash inflows and cash outflows requirements from the Corporation and its subsidiaries are monitored closely and separately to ensure the Corporation optimizes its cash return on investment. Typically, the Corporation ensures that it has sufficient cash to meet expected operational expenses. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

THE FOLLOWING ARE THE CONTRACTUAL MATURITIES OF THE FINANCIAL LIABILITIES:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	1,251,250	—	—
Trade and other payables (excluding sales tax)	3,527,816	—	—
Provision	1,844,335	—	—
Long-term debt	7,545,789	445,275	27,182
	14,169,190	445,275	27,182

THE FUTURE AMOUNTS PAYABLE, AS OF JULY 31, 2019, ARE AS FOLLOWS:

	At July 31, 2019	At July 31, 2018
Less than 1 year	6,945,844	13,079,323
Between 1 and 5 years	792,534	1,316,207
More than 5 years	211,270	623,057
Total amounts payable	7,949,648	15,018,587
Less: Financing fees	(81,400)	(215,917)
	7,868,248	14,802,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2019 AND 2018

(Tabular amounts in Canadian dollars, unless otherwise noted)

The Corporation's loan agreement requires compliance with two ratios on a quarterly basis, starting August 19, 2016. The first is a ratio of Senior debt to earnings before interest, income taxes, depreciation, amortization and permitted expenses ("Adjusted EBITDA") calculated on a rolling four-quarters basis. The second is a fixed charge coverage ratio. At July 31, 2019, the Corporation was not in compliance with its financial covenants, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation has entered into a forbearance agreement until November 30, 2019.

The Corporation has sufficient liquidity to continue its operations, but additional financing will be required. The Corporation remains in discussion with its lender to remediate the breach of the financial covenant in accordance with the Loan from a Canadian chartered bank.

THE CORPORATION'S EXPOSURE TO INTEREST RATE RISK IS SUMMARIZED AS FOLLOWS:

Cash	Fixed interest rates
Trade and other receivables	Non-interest bearing
Loans receivables	Non-interest bearing
Bank indebtedness	Variable interest rates
Trade and other payables	Non-interest bearing
Long-term debt	Fixed and variable interest rates

d) CAPITAL MANAGEMENT

For the purposes of capital management, capital consists of share capital and retained earnings of the Corporation. The Corporation's objectives when managing capital are:

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there are no financial constraints on the use of capital;
- To maintain investors, creditors and market confidence.

c) MARKET RISK

INTEREST RATE RISK

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Corporation will fluctuate, because of changes in interest rates. The Corporation's financial liabilities other than current liabilities, is comprised of medium to long-term variable rate debt, concerning which the Corporation has mitigated its risk by entering into interest rate swap contracts for a contracted fixed interest rate (note 11). The interest rate swaps are measured at fair value and changes in interest rates will result in a change in fair value of the interest rate swaps. This change is recognized in earnings as a gain or loss in the year it occurs.

In managing capital structure, the Corporation manages its capital through regular reports to the board of directors, as well as management review of monthly or quarterly financial information.

The Corporation seeks to maintain a balance between the highest returns that might be possible with higher levels of borrowing and the advantages and security by a sound capital position.

There were no changes in the Corporation's approach to capital management during the year.

(Tabular amounts in Canadian dollars, unless otherwise noted)

23 UNRECOGNIZED COMMITMENTS

OPERATING LEASES

The Corporation entered into operating leases expiring on various dates through October 2027, with respect to leased premises and other leases. The total future minimum lease payments under non-cancellable operating leases are as follows:

	2019
Less than 1 year	469,930
Between 1 and 5 years	1,383,838
More than 5 years	181,732
	2,035,500

SUPPLY CONTRACTS

On June 21, 2019, the Corporation signed an agreement with Chainium, a French corporation, as part of a blockchain solution to get strategic advice at the technical level, developing the technology solution and fundraising. The fees related to the agreement include a fixed portion 1) 60,000 EUR (\$78,888) at the signature, 2) a monthly 1,000 EURO (\$1,315) from the closing date and a variable portion of 5% of the amount that will be raising. The contract may be terminated at any time and without cause by both parties.

24 CONTINGENT LIABILITIES

A) On August 23, 2018, the Corporation received a formal notification from the holder of the Series A Preferred Shares alleging breaches of certain contractual provisions by the Corporation and demanding, among other things, redemption or acquisition of all Series A Preferred Shares at principal plus any accrued but unpaid dividends (note 11) repayment of their pro-rata share of the Promissory notes plus accrued but unpaid interest (note 12) and regarding amounts supposedly owed under a consulting agreement. The outcome of any further action on this matter is indeterminable at this time and therefore.

This agreement was signed in November 2016 for a fixed term of 10 years. The fees for the first five years was establish at a quarterly amount of \$85,000 and the second five years, the quarterly amount is increased at \$95,000. This agreement could be terminate following the fifth year anniversary with the payment of the balance of the next five years minus a 10% discount.

The management of the Corporation indicates that they have never received services under the consulting agreement and that the obligations of the parties under this consulting agreement have been suspended since

the first forbearance agreement signed with its main lender as at November 2017.

Management of the Corporation believes the claims to be unfounded and formally responded in writing to that effect to the Preferred Shares holder on September 7, 2018. There has been no reply or development from the Preferred Shares holder following such formal response. Management intends to defend and contest any and all claims brought forward in the formal notification received from the Preferred Shares holder. The outcome of any further action on this matter is indeterminable at this time.

No adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications have been reflected in the consolidated financial statements.

B) As at July 31, 2019, the Corporation is involved in an action on account payable from a third party pursuant to which the third party claims an amount of \$65,761 to the Corporation for services rendered. That is recorded in its liability. In the opinion of the management, the resolution of this claim should not have a negative impact for the Corporation (refer to note 27).

(Tabular amounts in Canadian dollars, unless otherwise noted)

25 RELATED PARTIES

The Corporation's related parties include companies under common control as well as key management personnel. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. The transactions are measured at value of the consideration given or received, which has been established and agreed by the parties. Outstanding balances are usually settled in cash.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of the Corporation's Board of Directors and corporate officers. The key management and directors received the following remuneration.

	2019	2018
Professional fees	403,004	596,104
Share-based compensation	169,956	11,667
	572,960	607,771

THE CORPORATION HAS THE FOLLOWING AMOUNTS OWING TO KEY MANAGEMENT PERSONNEL AS AT JULY 31:

	2019	2018
Trade and other payables	177,195	425,632
Dividend payable ⁽¹⁾	75,000	75,000
	252,195	500,632

⁽¹⁾ Recorded before the reverse takeover transaction in 2015 from prior business combination in the acquired entity.

26 EXPLANATORY NOTE FOUR CONSOLIDATED STATEMENT OF CASH FLOWS

CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2019	2018
Trade and other receivables	(216,094)	(2,839,638)
Inventories	1,519,129	(1,015,296)
Income tax receivable	(67,555)	(721,480)
Prepaid expenses	236,261	(59,367)
Trade and other payables	(2,833,811)	3,151,722
Deferred revenues	243,351	-
	(1,118,719)	(1,484,059)

NON-CASH TRANSACTIONS

The Corporation completed the conversion of a convertible debenture for a total amount of \$750,000 (note 14); The Corporation has reached agreements to settle indebtedness to creditors totaling \$510,000 in exchange of 3,400,000 Class A shares issued (note 14).

(Tabular amounts in Canadian dollars, unless otherwise noted)

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SUBSEQUENT EVENTS

- a) August 7, 2019, KDA announced that a letter of intent has been signed to acquire 100% of the ordinary share of Consult & Grow Inc. for a total value of \$1,900,000 composed of \$500,000 in cash and 5,600,000 ordinary shares of class A of KDA for a value of \$1,400,000. Consult & Grow Inc. offers cannabis license services, as well as consulting and compliance to grow cannabis. Consult & Grow Inc. is a team of experts with a proven record of success in the cannabis industry. The due diligence is currently underway.
- b) September 20, 2019, KDA received the approval from the TSXV to complete the settled indebtedness to Marc Lemieux, President and Chief Executive Officer, totaling \$925,000 in exchange for the issuance of 4,625,000 Class A Shares of KDA at a price of \$0.20 per Common share.
- c) October 22, 2019, KDA announced that a private placement, has been completed with accredited investors totaling 19,720,000 units (the “Units”) at a price of \$0.25 per unit for total gross proceeds of \$4,930,000. Each unit consists of one Class A Share of KDA and one-half of one Common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common share of the Corporation at an exercise price of \$0.40 per Common share for a period of 12 months from the date of issue. The Corporation paid a cash commission of \$27,600 in relation to this Private Placement and issued 110,400 non-transferable share purchase warrants (the “Broker warrants”). Each Broker warrant entitles the holder to purchase one Common share at an exercise price of \$0.25 per Common share for a period of 12 months ending October 22, 2020. All securities issued in connection with the Private Placement are subject to a mandatory four-month hold period expiring on February 23, 2020, in accordance with applicable securities regulations.
- d) October 22, 2019, the Corporation announced that it has reached an agreement to settle indebtedness to a creditor totaling \$825,000 with the same terms as the Private Placement disclosed above, meaning in exchange for the issuance of 3,300,000 Common shares at a price of \$0.25 per Common share and 1,650,000 Warrants. All securities to be issued under the Debt Settlement will be subject to a mandatory four-month hold period expiring on February 23, 2020, in accordance with applicable securities regulations.
- e) November 8, 2019, KDA completed a debt settlement with creditor totaling \$780,000 in exchange for the issuance of 2,600,000 Class A Shares of KDA at a price of \$0.30 per Common share.
- f) November 27, 2019, KDA settle the litigation for \$44,000.

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COMPARATIVE FIGURES

Certain prior year figures have been reclassified to make their presentation identical to that adopted in 2019. These reclassifications had no effect on the reported result of operations.